

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-455

For: County Offices

2-FLP

**Farmers Exchange Bank
Preferred Lender Program Status**

Approved by: State Executive Director



1 Overview

A Background

2-FLP governs the processing and servicing of guaranteed loans. The Preferred Lender Program (PLP) allows lenders to originate and service guaranteed loans as they do their non-guaranteed loans.

B Purpose

The purpose of this notice is to:

- Advise County Offices that the Farmers Exchange Bank Credit Management System (CMS), has been updated and revised and approved by the Deputy Administrator Farm Loan Programs.
- Provide guidance and direction to staff to ensure continuous service to the Lender.

C Contact

Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the Oklahoma State Office.

D Filing Instructions

This notice should be filed with the FLP series Notices.

Disposal Date	Distribution
December 6, 2004	Farm Loan Program Teams, County Offices, DD's, COR's

2 Action

A County Office Action

Attached is a copy of the revised Farmers Exchange Bank Credit Management System (CMS). This replaces the CMS that is attached to the bank's master December 6, 1999, Lender's Agreement **(maintain and do not destroy)** on file.

The PLP status remains in effect for the same 5-year period, December 6, 1999, to December 6, 2004.

PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. Any action not addressed in the CMS will then be in accordance with 2-FLP, as a CLP lender.

The County Office shall develop and maintain an operational file on each lender. This file will contain the information outlined in 2-FLP Par. 48 B, Operational File.

B Loan Making

Only Farmers Exchange Bank employees listed in the CMS assigned to the Guaranteed FLP PLP Credit Team can submit guaranteed loan applications. All PLP guaranteed loan applications should be filed with the Farm Loan Manager servicing the county which has been designated as the centralized PLP application-processing county.

Under Par. 83 B, PLP applications must be approved or rejected and the lender also notified of the decision within 14 calendar days of the complete application.

C Loan Servicing

All PLP guaranteed loans, once closed, shall be sent to the Farm Loan Manager servicing the county where the borrower's principal residence on the farm is located. If the borrower's residence is not located on the farm or the borrower is an entity, the loan will be serviced in the county where the farm or major portion of the farm is located, unless otherwise approved by the State Office.

If not covered under the CMS, Farmers Exchange Bank must follow the servicing requirements for CLP lenders found in 2-FLP Handbook.

All loan servicing actions on existing guaranteed loans will be based on the current CMS in effect, regardless if the loan was approved under a previous CMS revision.

D PLP Designated Loan Officers

Following is a complete list of persons designated to originate and service PLP loans for Farmers Exchange Bank, as outlined in their CMS, and who have attended required annual FSA lender training.

Larry DeWitt, Vice President
Dennis Buss, President, Tonkawa Branch
F. Dale Evans, Vice President

E CMS Interpretation

Contact the FLP Section at the State Office for any assistance and/or guidance in regards to the interpretation of Farmers Exchange Bank PLP Lender's Agreement/Credit Management System (CMS).



FLP

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

1400 Independence
Ave, SW
Stop 0522
Washington, DC
20250-0522

JUL 22 2003

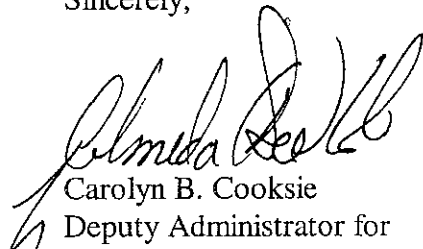
Mr. Larry DeWitt
Vice President
Farmers Exchange Bank
Post Office Box 267
Cherokee, Oklahoma 73728

Dear Mr. DeWitt:

This is in regard to your request to modify the Preferred Lender's Agreement for Farmers Exchange Bank to reflect the acquisition of two branches of Gold Bank. Enclosed are copies of your revised Credit Management System summary and Lender's Agreement, which reflect this acquisition. The expiration date for the revised agreement remains December 6, 2004.

Thank you for your continued interest and participation in FSA's guaranteed loan programs. If you have any questions or concerns, please contact Kathy Zeidler of my staff at (202) 720-5199.

Sincerely,



Carolyn B. Cooksie
Deputy Administrator for
Farm Loan Programs

Enclosures

FSA-1980-38

(06-09-99)

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency**LENDER'S AGREEMENT***See page 6 for Privacy Act and Public Burden Statements.*

The purpose of this Agreement is to establish the lender as an approved participant in the guaranteed loan programs of the Farm Service Agency, U.S. Department of Agriculture. This Agreement provides the terms and conditions for originating and servicing such loans, including lines of credit. Provide the requested information, read this agreement in its entirety and sign in the space on the last page. Your signature indicates consent with this agreement.

Part A - Background Information

1. Lender's Name and Mailing Address

Farmers Exchange Bank
P.O. Box 267
Cherokee, OK 73728

2. Tax Identification Number

73-0236060

3. Telephone Number (include area code)

(580) 596-3371

4. This agreement establishes the above lender as a:

☒

Preferred Lender (PLP)

☐

Certified Lender (CLP)

☐

Standard Eligible Lender (SEL)

5. The following suboffices of the lender are covered under this agreement:

☒

All Offices

Offices listed on original CMS

Farmers Exchange Bank

P.O. Box 267 519 S. Grand

Cherokee, OK 73728

(580) 596-3371

Farmers Exchange Bank of Tonkawa

P.O. Box 528 111 E. Grand

Tonkawa, OK 75653

(580) 628-2572

Acquired two branches from Gold Bank on June 1, 2003. They are now:

Farmers Exchange Bank of Helena

P.O. Box 257 Third & Main

Helena, OK 73741-0257

(580) 852-3241

Farmers Exchange Bank of Wakita

P.O. Box 7 101 S. Locust

Wakita, OK 73711

(580) 594-2251

6. The lender is authorized to submit loan guarantees in the following FSA Offices:

Alva, Oklahoma - Woods and Alfalfa Counties

Enid, Oklahoma - Grant, Kay, and Major Counties

With Loren Rieger, Larry DeWitt, Dennis Buss, Dale Evans,
and Alvin Jones as designated representatives.

Part B - Duties and Responsibilities of FSA ("Agency")

1. **Payment of Claims** - Agency agrees to make payment on its claims in accordance with the terms of the guarantee and Agency regulations in 7 C.F.R. part 762. The maximum loss payment may not exceed the amount determined in the guarantee, including the percentage of principal and any accrued interest, protective advances, and emergency advances. The guarantee is supported by the full faith and credit of the United States and is incontestable except under the circumstances of fraud or misrepresentation of which the lender has actual knowledge at the execution of the guarantee or which the lender participates in or condones.
2. **Personnel Available for Consultation** - Agency shall make personnel available for consultation on interpretations of Agency regulations and guidelines. The lender may consult with Agency personnel regarding unusual underwriting, loan closing, and loan liquidation questions.

Part C - General Requirements of the Lender

1. **Eligibility to Participate** - The lender must meet the requirement contained in 7 C.F.R. part 762 and be approved by the Agency to be a participant in the Guaranteed Loan Program.
2. **Knowledge of Program Requirements** - The lender is required to obtain and keep itself informed of all program regulations and guidelines, including all amendments and revisions. The lender must establish and maintain adequate and written internal policies for loan origination and servicing to meet these requirements. These policies will be made available to the Agency for review when requested.
3. **Notification** - The lender shall immediately notify the Agency in writing if the lender:
 - a. Becomes insolvent;
 - b. Has filed for any type of bankruptcy protection, has been forced into involuntary bankruptcy, or has requested an assignment for the benefit of creditors;
 - c. Has taken any action to cease operations, or to discontinue servicing or liquidating any or all of its portfolio guaranteed by the Government;
 - d. Has changed its name, location, address, tax identification number, or corporate structure;
 - e. Has been debarred, suspended, or sanctioned in connection with its participation in any Federal guaranteed program; or
 - f. Has been debarred, suspended, or sanctioned by any Federal or State licensing or certification authority.
4. **Employee Qualifications** - The lender shall maintain a staff that is well trained and experienced in origination and loan servicing functions, as necessary to ensure the capability of performing all the acts within its authority.
5. **Conflict of Interest** - When a lender applies for a guaranteed loan, the lender will inform the Agency in writing of any relationships which could result in a conflict of interest or the appearance of a conflict of interest. Reportable relationships include:
 - a. The lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest in the loan applicant or borrower.
 - b. The loan applicant or borrower, a relative of the loan applicant or borrower, anyone residing in the household of the loan applicant or borrower, any officer, director, stockholder or other owner of the loan applicant or borrower holds any stock or other evidence of ownership in the lender.
 - c. The loan applicant or borrower, a relative of the loan applicant or borrower, or anyone residing in the household of the loan applicant or borrower is an Agency employee.
 - d. The officers, director, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners of the lender having substantial business dealings (other than in the normal course of business) with the loan applicant or borrower.
 - e. The lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.

Part D - Underwriting Requirements1. **Responsibility**

The lender is responsible for originating, servicing, and collecting all guaranteed loans in accordance with Agency regulations.

2. **Origination Process**

- a. General Eligibility. The lender shall make a preliminary determination whether loan applicants meet the general eligibility requirements in Agency regulations. Agency will make the final determination.

Part D - Underwriting Requirements (continued)

- b. Delinquency on Federal Debt. The lender shall determine whether the loan applicant is delinquent on any Federal debt. The lender shall use credit reports and any other credit history in making this determination. If the loan applicant is delinquent on or a judgment debtor on any Federal debt, processing of the application may only continue in accordance with Agency regulations.
 - c. Appraisals of Collateral. The lender shall ensure that the value of any collateral property or property to be purchased is determined by a qualified appraiser, including a certified appraiser when required by law or regulation.
 - d. Change in Borrower's Condition. Before the Agency issues a loan guarantee, the lender will certify that there has been no adverse change in the borrower's condition, financial or otherwise, since submission of the application for guaranteed loan. For use in this provision alone, the term "borrower" includes any member, joint operator, partner or stockholder.
 - e. Limitation on Guarantee. Late charges of any kind including default charges and default interest will not be covered by the guarantee.
3. **Loan Closing** - All loans guaranteed by the Agency shall be closed by attorneys, escrow companies, escrow departments of lending institutions, or other persons, or entities skilled and experienced in conducting loan closings. The lender shall:
- a. Ensure funds for the particular loan or line of credit will be used only for the purposes authorized in Agency regulations and as contained in the conditional commitment;
 - b. Ensure that documents, including the mortgage and any security agreements, chattel mortgages or equivalent documents relating to it have been properly signed, are valid and contain terms enforceable by the lender;
 - c. Ensure that all security with appropriate lien priorities is obtained in accordance with the conditional commitment and Agency regulations;
 - d. Ensure that all closing documents required to be recorded are recorded accurately, in the appropriate offices, and in a timely and accurate manner;
 - e. Ensure that security interests are perfected in collateral according to applicable regulatory requirements and procedures;
 - f. Ensure that all required hazard insurance will be obtained in accordance with Agency regulations or is now in effect;
 - g. Collect all fees and costs due and payable by the borrower in the course of the loan transaction and disburse payment directly to the parties for services rendered;
 - h. Ensure that construction, relocation, repairs, or development will be complete in accordance with applicable drawings and specifications;
 - i. Ensure the borrower has marketable title to security property now owned, and will obtain such title to any additional property to be acquired with loan funds, subject only to the instruments securing the loan to be guaranteed and any other exceptions set forth in Agency regulations;
 - j. The entire loan will be secured equally with the same security and the same lien priority for both the guaranteed and unguaranteed portions of the loan, under the assurance that the unguaranteed portion of the loan will not be paid first nor given priority over the guaranteed portion of the loan;
 - k. Submit the required guarantee fee with the guaranteed loan closing report.
4. **Restriction and Disclosure of Lobbying Activities** - If any funds have been or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or any employee of a Member of Congress in connection with this commitment providing for the United States to guarantee a loan, the undersigned shall complete and submit Standard Form - LLL, "Disclosure of Lobbying Activities," in accordance with its instructions. Submission of this statement is a prerequisite for making or entering into any transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

Part E - Servicing Requirements

- 1. **Responsibilities** - The lender will service the entire loan as mortgagee and secured party of record in a reasonable and prudent manner, notwithstanding the fact that another party (holder) may hold a portion of the loan.
- 2. **Supervision** - The lender's responsibilities regarding borrower supervision include, but are not limited to, the following:
 - a. Ensure loan funds are not used for any unauthorized purpose.
 - b. Ensure borrower compliance with the covenants and provisions provided in the note, loan agreement, security instruments, any other agreements, and 7 C.F.R. part 762.
 - c. Perform an annual analysis of the borrower's financial condition to determine the borrower's progress when required by Agency regulations.

Part E - Servicing Requirements (continued)

- d. Account for all collateral.
 - e. Discuss any observations about the farm business with the borrower.
 - f. Ensure the borrower and any party liable for the loan is not released from liability for all or any part of the loan, except in accordance with Agency regulations.
3. **Reporting Requirements** - The lender recognizes that the Agency, as guarantor, has a vital interest in ensuring that all acts performed by the lender regarding the subject loans are performed in compliance with this agreement and Agency regulations. Information on the status of guaranteed loans is necessary for this purpose, as well as to satisfy budget and accounting reporting required by the Department of Treasury and the Office of Management and Budget. The lender agrees to provide Agency with all the data required under Agency regulations and any additional information necessary to monitor the status of its guaranteed loan portfolio, and to satisfy external reporting requirements.
- The lender also agrees to provide to the Agency upon request, copies of audited financial statements, reports on internal controls, copies of compliance audits, and such other information that may be required of the Agency to monitor the lender's performance.
4. **Negligent Servicing** - The guarantee cannot be enforced by the lender to the extent a loss results from a violation of usury laws or negligent servicing regardless of when the Agency discovers such violation or negligence. Negligent servicing is defined as the failure to perform services which a reasonably prudent lender would perform in servicing its own portfolio of loans that are not guaranteed. The term includes both a failure to act and not acting in a timely manner to include actions taken up to the time of loan maturity or until final loss is paid.
5. **Payments** - Payments from the borrower shall be reviewed by the lender and processed upon receipt according to Agency regulations, and may include escrow premiums for hazard insurance and real estate taxes. The lender shall promptly disburse to any holder the holder's pro rata share according to their respective interests in the loan, less only the lender's servicing fee.
6. **Collateral**
- a. Insurance. The lender shall ensure that adequate insurance is maintained in accordance with Agency regulations, including the maintenance of property, casualty, flood, and hazard insurance containing a loss payable clause in favor of the lender as the mortgagee or secured party.
 - b. Escrow Accounts. The lender may establish separate escrow accounts. All escrow accounts must meet applicable Federal and State laws and regulations, and must be fully insured by the FDIC or cross collateralized with unencumbered Government Securities.
 - c. Inspection. The lender shall inspect the collateral as often as necessary to properly service the loan and ensure the collateral is being properly maintained.
 - d. Taxes. The lender shall ensure that taxes, assessments, or ground rents against or affecting collateral are paid.
7. **Delinquent Accounts**
- a. A guaranteed loan is in default after 30 days have passed and the borrower has not made a payment as due or has otherwise violated a loan agreement. The lender is responsible for resolution of the default. The lender will notify the Agency using an FSA default status report when a borrower is 45 days past due or otherwise in default. This report will be submitted every 60 days thereafter and will contain a summary of collection, restructuring or liquidation steps taken since the previous report.
 - b. The lender may take actions to correct the default as provided in 7 C.F.R. part 762. A loan that has been sold on the secondary market can only be restructured if the loan is repurchased or upon written concurrence from the holder.
 - c. The lender will work in good faith with the borrower to allow them to cure the default, where reasonable. The lender must participate in mandatory farmer-creditor mediation in accordance with 7 C.F.R. part 762, State law and the rules that govern the mediation program that operates in the State in which the borrower resides.
 - d. The lender must consider the borrower for interest assistance as provided in 7 C.F.R. part 762. If the lender determines that default can be cured by rescheduling the loan with interest assistance, lender will request a determination of the borrower's eligibility by the Agency. Liquidation or foreclosure cannot be initiated until 60 days after consideration.
8. **Sales or Participation**
- a. The guaranteed portion of loans may be sold in accordance with 7 C.F.R. part 762. Lines of credit cannot be sold, but may be participated with other lenders.
 - b. When a loan has been sold, the holder can demand that the lender repurchase the unpaid guaranteed portion of a loan in accordance with the FSA assignment of guarantee.

Part E - Servicing Requirements (continued)

- c. If the lender is unable to repurchase, the holder may make a demand for repurchase to the Agency. Repurchase by the Agency in no way alters lender responsibilities to the loan under this agreement or the loan guarantee. A restructuring action may not be executed once the Agency has repurchased the guaranteed portion of the loan and within 180 days the lender must reimburse the Agency for the repurchase or liquidate the loan in accordance with Agency regulations. Lender must send the pro rata share of the borrower's payments directly to the Agency until liquidation is complete.
 - d. Failure to reimburse the Agency within 180 days for repurchase, if not waived by the Agency, is a violation of this agreement.
9. **Default/Liquidation**
- a. Protective Advances. Protective advances must constitute a debt of the borrower to the lender and be secured by the security instrument. Agency written authorization is required for protective advances in accordance with the terms and amounts specified by 7 C.F.R. part 762 regulations.
 - b. Additional Loan or Advances. In cases of a Line of Credit, the lender may make an emergency advance when a line of credit has reached its ceiling and additional funds are needed to prevent an imminent loss of crops or livestock that would take place if the emergency advance were not made. The lender must provide Agency with an analysis as required by Agency regulations.
 - c. Future Recovery. After a loan has been liquidated and a final loss has been paid by the Agency, any future funds which may be recovered from the borrower will be pro-rated between the Agency and the lender.
 - d. Bankruptcy. The lender is responsible for protecting the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings. Loss payments on bankruptcy cases will be processed according to the terms described in Agency regulations.
 - e. Liquidation. Liquidations must receive prior Agency concurrence when required by regulations.
 - f. Loss Claims. The lender will submit an estimated loss claim to the Agency in the event liquidation will exceed 90 days. Estimated and final claims will be processed in accordance with the terms described in Agency regulations.
10. **Servicer** - If the lender contracts for servicing of guaranteed loans, the lender is not relieved of responsibility for proper servicing of the loans.

Part F - Agency Reviews of Lender's Operations

The Agency may conduct reviews, including on-site reviews, of the lender's operations and the operations of any agent of the lender, for the purpose of verifying compliance with this agreement and Agency regulations and guidelines. These reviews may include, but are not limited to, audits of case files; interviews with owners, managers, and staff; audits of collateral; and inspections of the lender's and its agents underwriting, servicing, and liquidation guidelines. The lender and its agents shall provide access to all pertinent information to allow the Agency, or any party authorized by the Agency, to conduct such reviews.

Part G - Conformance to Standards

1. The lender shall conform to the standards outlined in this agreement and Agency regulations for participation in the Agency's guaranteed loan program. CLP and PLP must maintain compliance with the criteria set forth in 7 C.F.R. part 762. The Agency shall determine lender adherence to the standards based on:
 - a. Adequacy in meeting requirements for origination, servicing, and liquidation of loans and lines of credit, including protection of collateral;
 - b. Satisfaction of the reporting requirements of the Agency;
 - c. Success in operating in a sound, prudent and businesslike manner;
 - d. Portfolio performance compared to overall performance of the Agency's guaranteed loan program; and
 - e. Results of on-site reviews of the underwriting and servicing performed by the lender.
2. **Determination of Non-Conformance** - The Agency shall carefully consider the circumstances and available facts in determining whether there is a pattern of lender non-conformance with applicable standards. The Agency shall determine the propriety of any decision made by the lender based on facts available at the time the specific action was taken. It is understood by the Agency and intended by this agreement that the lender has the authority to exercise reasonable judgement in performing acts within its authority. However, the Agency reserves the right to question any act performed or conclusion drawn that is inconsistent with this agreement or Agency regulations or prudent lending practices.
3. **Agency Action** - If the lender is determined to be in non-conformance with any Federal law, State law, Agency regulation, or guideline, or the terms of this agreement, the Agency may take action in accordance with its laws and regulations.
4. **Lender Right of Appeal** - The Agency will provide the lender an opportunity to appeal adverse Agency actions in accordance with Agency regulations.

Part H - List of Agency Regulations and Guidelines and Designation of Lender Authority to Perform Certain Acts

1. **List of Agency Regulations** - The guaranteed loan program is administered under 7 C.F.R. part 762. The lender is required to comply with these regulations as well as any future amendments not inconsistent with this Agreement.
2. **Authority to Perform Certain Acts** - Agency regulations describe the authorities and responsibilities for lenders. In addition, PLP will process and service loans as described in their application for PLP status approved by the Agency. This application is described in the preferred lender program attachment to this agreement. The lender further agrees to inform the Agency and obtain approval on changes to any policy or process described in the application for PLP status.

Part I - Duration and Modification

1. **Duration and Termination**
 - a. **Duration and Agreement** - For CLP and PLP, the Agreement is valid for five years unless terminated by the lender or the Agency as described below or revoked according to Agency regulations. For SELs, this agreement will be valid indefinitely unless terminated by the lender or Agency as described below.
 - b. **Modification of Agreement** - This agreement may be modified or extended only in writing and by consent of all parties.
 - c. **Termination by Agency** - This agreement may be terminated by the Agency in accordance with Agency regulations.
 - d. **Termination by the Lender** - This agreement may be terminated by the lender by providing 30 days written notice to the Agency.
 - e. **Effect of Termination on Responsibilities and Liabilities** - Responsibilities or liabilities that existed before the termination of the agreement with regard to outstanding guarantees will continue to exist after termination unless the Agency expressly releases the lender from such responsibilities or liabilities in writing. The lender shall remain obligated to service and liquidate the guaranteed loans remaining in the portfolio unless and until the Agency or the lender transfers the loans. These requirements concerning loan management by the lender and rights of the Agency under this agreement shall remain in effect whether the agreement is terminated by the lender or Agency.
 - f. **Revocation of CLP or PLP status** - If the Agency revokes CLP or PLP status, loans made while the lender held this status must continue to be serviced under this agreement and according to Agency regulations applying to SELs or CLP, whichever status the lender then holds.
2. **Entire Agreement** - This agreement, Parts A through K inclusive along with any attachments, and any regulations or guidelines incorporated by reference shall constitute the entire agreement. There are no other agreements, written or oral, regarding the terms in this agreement which are or shall be binding on the parties.

Part J - Certification

I certify that I have read and understand the requirements in the agreement, and in 7 C.F.R. part 762, and agree to the participation requirements and other provisions of this agreement.

1. Name and Title of Lender Representative Larry DeWitt, Vice President	2. Authorized Lender Representative Signature <i>Larry D. Witt VP</i>	Date 7/3/03
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Part K - FSA Use Only

1. Name and Title of FSA Representative Carolyn B. Cooksie Deputy Administrator	2. FSA Representative Signature <i>Carolyn B. Cooksie</i>	Date 7/2/03
3. Effective Date of Agreement	4. Agreement Expiration Date (CLP and PLP only) December 6, 2004	

NOTE: The following statements are made in accordance with the Privacy Act of 1974 (5 USC 552a): the Farm Service Agency (FSA) is authorized by the Consolidated Farm and Rural Development Act (7 USC 1921 et seq.) and the regulations promulgated thereunder, to solicit the information requested on this agreement. The information requested is necessary for FSA to determine eligibility for guarantee or other financial assistance, service your guarantee, and conduct statistical analyses. Supplied information may be furnished to other Department of Agriculture agencies, the Department of the Treasury, the Department of Justice or other law enforcement agencies, the Department of Defense, the Department of Housing and Urban Development, the Department of Labor, the United States Postal Service, or other Federal, State, or local agencies as required or permitted by law. In addition, information may be referred to interested parties under the Freedom of Information Act (FOIA), to financial consultants, advisors, lending institutions, packagers, agents, and private or commercial credit sources, to collection or servicing contractors, to credit reporting agencies, to private attorneys under contract with FSA or the Department of Justice, to business firms in the trade area that buy chattel or crops or sell them for commission, to Members of Congress or Congressional staff members, or to courts or adjudicative bodies. Disclosure of the information requested is voluntary. However, failure to disclose certain items of information requested, including your Social Security Number or Federal Tax Identification Number, may result in a delay in the processing of an application or its rejection.

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0560-0155. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. RETURN THIS COMPLETED FORM TO YOUR LOCAL FSA OFFICE.

CREDIT MANAGEMENT SYSTEM SUMMARY

Farmers Exchange Bank

This attachment contains the credit management system requirements agreed to by the Farmers Exchange Bank (Lender) in Cherokee, Tonkawa, Helena, and Wakita, Oklahoma. The following information summarizes the credit management system requirements provided in the Lender's request for Farm Service Agency (FSA) preferred lender status, with attachments and exhibits. Requirements for loan administration, servicing and reporting activities not specifically addressed in this attachment are governed by the attached Form FSA-1980-38, "Lender's Agreement," and 7 CFR 762.

When requesting a guarantee, the Lender will submit the following:

- A completed "Preferred Lender Application for Guarantee" (FSA-1980-28);
- A complete loan narrative, including a description of the location of all farmed land;
- If Interest Assistance is required, a completed Part G of "Application for Guarantee" (FSA-1980-25), projected cash flow, and current balance sheet; and
- When the applicant is an entity, the names, social security numbers, and percent ownership for each entity member (entity information will be addressed in the loan narrative).

I. GENERAL OPERATIONS

A. Normal Trade Area

The normal trade area for the Farmers Exchange Bank is Alfalfa County in northwestern Oklahoma, and the western half of Kay County, and the northern half of Grant County in north-central Oklahoma.

The Lender does not actively seek loans outside of its trade area; however, loans to customers outside the normal trade area who have local ties and continue to do business with the Lender will generally be considered as desirable.

The primary commodities in the Lender's area are wheat, alfalfa, and beef cattle.

B. Officers Lending Authority and Qualifications

Farmers Exchange Bank of Cherokee. Farmers Exchange Bank of Cherokee employs three loan officers with varying lending authority. The following summary discloses the names, titles, and lending authority of the loan officers, as well as a brief statement about their lending experience:

- The Chief Executive Officer and President of Farmers Exchange Bank, Loren Rieger, has the authority to approve loans meeting all credit standards up to \$330,000. He has 19 years of experience in the field of agriculture and consumer lending.

- The Vice President, Larry DeWitt has the authority to approve loans meeting all credit standards up to \$100,000. He has seven years of experience in the field of agriculture and consumer lending.
- The Assistant Cashier and Consumer Loan Officer, Janet Brown, has the authority to approve loans meeting all credit standards up to \$25,000. She has one year experience in the field of consumer lending.

Farmers Exchange Bank, Tonkawa Branch. Farmers Exchange Bank of Tonkawa employs two loan officers with varying lending authority. The following summary discloses the names, titles, and lending authority of the loan officers, as well as a brief statement about their lending experience:

- The President of the Tonkawa branch, Dennis Buss, has the authority to approve loans meeting all credit standards up to \$200,000. He has 20 years of experience in the field of agriculture and consumer lending.
- The Vice President of the Tonkawa branch, F. Dale Evans, has the authority to approve loans meeting all credit standards up to \$100,000. He has seven years experience in the field of agriculture and consumer lending.

Farmers Exchange Bank, Wakita Branch. Farmers Exchange Bank of Wakita employs one loan officer. The following summary discloses the name, title, and lending authority of the loan officer, as well as a brief statement about his lending experience:

- The Assistant Vice-President of the Wakita branch, Alvin Jones, has the authority to approve loans meeting all credit standards up to \$100,000. He has 20 years experience in the field of agriculture and consumer lending.

Farmers Exchange Bank, Helena Branch. Farmers Exchange Bank of Helena employs one loan officer. The following summary discloses the name, title, and lending authority of the loan officer, as well as a brief statement about her lending experience:

- The Branch Manager of the Helena branch, Vicki Payne, has the authority to approve loans meeting all credit standards up to \$25,000. She has seven years experience in the field of consumer lending.

C. Policy Exceptions

Loans are expected to meet all of the Lender's established standard credit factors. Loans not meeting all of these standards may be considered on a case-by-case basis. If a credit standard is not met, the application must exhibit offsetting strong credit factors to be considered. Deviations from standards will be fully justified and approved by the loan officer committee. Loans not meeting credit standards will normally require an FSA guarantee. If a guarantee is requested, the exception and offsetting strengths will be clearly identified and the decisions justified in the narrative submitted to FSA.

D. Interest Rate

As a rule, the base interest rate on loans is based on a nationally recognized index established by the management of the bank taking into account relevant cost of funds and other factors. All agricultural loans are made at FEB Base plus or minus. Adjustments may be made to rates, based on several factors that include cash flow, equity in the collateral and pricing from competitors.

Interest rates are variable or fixed with no maximum and a minimum of six percent. All loans with a FSA guarantee will be at FEB Base plus and will be priced consistent with the pricing of agricultural loans that are not guaranteed. Neither the interest rate on the guaranteed portion nor the unguaranteed portion may exceed the rate the Lender charges its average agricultural loan customer.

E. Loan Terms

Repayment terms are based on the type of agriculture entity involved and cash flow stream. Payments are structured to be collected annually, semi-annually, or monthly. Loan terms will be dependent upon collateral type and the expected economic life of the collateral securing the loan. Lines of credit will be extended for up to five years, and will be scheduled to be repaid as the income from the farm production is received. New equipment and breeding livestock loans will be scheduled to be repaid in no more than seven years. Used equipment will be repaid in no more than seven years. In certain circumstances, balloon installments are acceptable. Loans secured by real estate may be amortized for up to 40 years.

F. Fees

Fees will be charged for origination, appraisals, and documentation. Any fee paid to a government guarantee agency is passed on to the borrower. Under certain circumstances loan officers have the discretion to waive fees.

G. Insider Loans

The Board shall separately review and approve all loans to bank insiders. No loans shall be made to an insider or to his interests where the amount of the loan when aggregated with all other loans outstanding to the insider and his interests exceeds \$25,000, unless prior approval by the Board of Directors has been obtained.

H. Internal Credit Review System

Farmers Exchange Bank has an ongoing internal review program, conducted by the Watch List Committee (WLC). The WLC serves as an independent, objective, active means for monitoring adherence to bank policies and procedures as well as assessing the accuracy of the credit and performance classifications and identifying credit administration weaknesses. WLC will review a significant number of loan and servicing actions, based upon a sampling

of those areas that present the greatest risk to the bank, including a quarterly review of credit administration on all lines of credit over \$50,000.

WLC will provide the board and senior management a quarterly report of key review results, including credit quality and credit administration deficiencies and adherence to policies and procedures. The group will also review the results of the individual loan reviews with the loan officers, who will be responsible for resolving any deficiencies in their portfolio. The loan officers will report weekly to the loan officer's committee on the status of corrective actions on identified deficiencies.

The Farmers Exchange Bank employs several independent internal auditors who regularly review subsidiary loans for compliance and proper credit administration. Deficiencies are printed out on a yearly basis, and each officer is expected to resolve any deficiency pertaining to his portfolio in a timely manner.

I. Use of Agents, Consultants and Packagers

Farmers Exchange Bank has used agents or packagers in the past, and would not oppose that type of assistance in the future. Loan requests are originated and packaged through the bank. Unsolicited loan proposals presented by private consultants may be considered; however, the application will be prepared, analyzed and presented by a bank loan officer.

J. Organizational Structure

Farmers Exchange Bank is a wholly owned subsidiary of Farmers Exchange Bancorporation Incorporated, a one bank and three branch bank holding company. All of the banks within the Farmers Exchange Bancorporation Inc. are located in Oklahoma. Farmers Exchange Bank is subject to credit examination and supervision by the Federal Deposit Insurance Corporation (FDIC), and the Oklahoma State Banking Department.

K. Monitoring Compliance with FSA Requirements

The agriculture-lending department of Farmers Exchange Bank has five loan officers with primary responsibility to originate and service FSA guaranteed loans. The loan officers (Loren Rieger, Larry DeWitt, Dennis Buss, Dale Evans, and Alvin Jones) are responsible for assuring that all FSA requirements, including reporting requirements, have been met. Loan Reviews will also monitor compliance with FSA requirements and notify the loan officer and senior management of any deficiencies. The Loan Reviews are done annually on all borrowers, including FSA guaranteed borrowers.

II. LOAN ANALYSIS/ UNDERWRITING

Farmers Exchange Bank uses the Farm Equity Manager computer loan analysis system. This system is used for borrowers on an as-needed basis, which is at the discrepancy of the loan officers.

A Loan Presentation includes a narrative, which addresses the credit factors. A Loan Presentation will be required for any loan above \$50,000; all loans for one borrower with an aggregate total of \$150,000; or for all loans by a borrower who is on the Watch List. If an FSA guarantee is being requested, a narrative that addresses the "five Cs of credit" will be included. This narrative will disclose any exceptions to the Lender's standard credit policy and describe the offsetting strengths in the other credit factors.

A. Management Ability/ Credit History Analysis

The applicant's management ability, character and credit history are significant parts of the credit decision. A thorough evaluation is especially critical when the Lender is considering extending credit to a new customer. A field visit will be conducted by the loan officer to evaluate the applicant's ability to manage the operation, and to determine the suitability of the land and facilities to the loan request.

Required Credit References. A credit report from Experian or another credit reporting bureau is included and maintained in the credit file for all new borrower applications and all loans that have any significant weakness. A credit report is required for any loan considered for an FSA guarantee. A five-year UCC lien search in the applicant's state of residence is used to further verify debt and to verify that all debts are accounted for. Businesses that a new applicant works with, such as veterinarians, and feed and fertilizer dealers, will be contacted for references on how the applicant farms and handles his financial business with them.

Young or Beginning Farmers. The extension of credit to young and beginning farmers is an appropriate use of loan funds. Loans to these individuals must meet the same underwriting standards as other applicants. Loans to beginning or young farmers will be considered for an FSA guarantee. Also, the Oklahoma Beginning Farmer Loan Program will be considered.

Previous Participation in Government Lending Programs. If an applicant discloses previous participation in government lending programs, the Lender will call or write the agency involved and verify repayment performance. If FSA credit is involved, the Lender will verify the applicant's continued eligibility. The agency reference must indicate acceptable credit and borrower compliance with loan terms, or the loan request will be denied.

Ag Linked. Farmers Exchange Bank is currently participating in the Oklahoma Agricultural Linked Deposit Program. This program is provided to bank customers that fit

the criteria and show a need. Many FSA guarantee customers are receiving Ag Linked funds.

Investigation of Environmental Issues. The Lender will work with the Oklahoma FSA State Office to assure environmental policies and procedures are in compliance with FSA requirements. Certain types of operations are more likely to have environmental problems. Large livestock operations, those that use large amounts of pesticides and fertilizers, and those with underground storage tanks are higher than normal environmental risks and will be thoroughly evaluated

Real estate appraisers approved by the Lender may be required to disclose any environmental issues in their appraisals.

In all cases where real estate will be taken as primary security, the loan officer completes a pre-loan site visit. During this site visit, loan officers look for indications of environmental concerns (such as soil conditions in the area that might suggest contamination or the presence of underground storage tanks). If environmental issues do arise, FSA and the NRCS are notified. A site visit is arranged between all parties concerned and the problem is evaluated to determine whether to continue with the loan, subject to conditions, hire an environmental professional to conduct a Site Assessment, or deny the loan.

B. Capacity Analysis

Determining Repayment Capacity. Capital Debt Repayment Capacity (CDRC) is the measurement of a borrower's ability to repay capital debt, based on an analysis of the operation's profitability. The applicant's ability to service the proposed debt plus existing debt and contingent liabilities is evaluated for all loans with use of a Proforma Cash Flow Budget. For loans exceeding \$10,000, at least three years of history of farm income, and expenses are analyzed with adjustments pertaining to any changes in the operation.

Non-farm income, if included in cash flow and necessary for adequate cash flow, will be verified as needed. Tax returns are utilized to obtain an average if the income is from a source other than the applicant's employer. Other income such as mineral production is verified through proof of contract.

Adequate capacity is necessary to protect the interests of the Lender. While it is preferable that an average historical cash flow meet coverage ratio requirements, a proforma cash flow is acceptable where deemed appropriate and adequately justified by the loan officer. At a minimum, a CDRC of 100% with an FSA guarantee could be acceptable, with mitigating strengths in other credit factors.

C. Capital Analysis

Capital refers to the financial strength of the business as measured by solvency and liquidity.

Asset quality, debt structure, and financial trends of the business will be based on accurate and verifiable historical and current balance sheets, together with income and expense statements of comparable dates.

Supporting Schedules. The financial statement on the loan request must be no more than 60 days old for a new customer. For existing customer, a balance sheet up to 90 days old is acceptable. Tax returns, sales receipts or any other data must support the financials.

Entity Consolidation Process. When the applicant is an entity, the balance sheet of each liable party will be obtained as well as the entity itself. In addition, consolidation of financial information is required when a corporation or formal partnership entity applies for a loan. Consolidation of the entities is required when income is derived from several sources. All assets, debts and income are combined.

D. Collateral Analysis

Collateral addresses quality of the asset, value, title and lien position, and relationship between the loan collateral value, stability, and marketability. The collateral is to provide protection from loss if the loan defaults.

Farmers Exchange Bank collateral standards are:

Growing Crops	50% Loan to Value (L/V)
Inventory	50% L/V
Feeder Livestock	80% L/V
Feeder Livestock (borrower provides feed and expenses). . .	100% L/V
Machinery and Equipment	75% L/V
Breeding Livestock.	80% L/V
Real Estate	65 – 85% L/V

Loan Applications that do not meet these minimum standards will be carefully analyzed, and the decision based on the strength of the cash flow and other credit factors, and should be considered for an FSA guarantee. With an FSA guarantee, the Lender will provide up to 100% L/V, if the capacity is adequate. In the narrative, the loan officer will clearly disclose the exception to the standard and discuss the mitigating strengths in other credit factors.

Insurance. Insurance will be required when needed to protect the interests of the Lender. Crop insurance will be required whenever crops are security and the L/V, computed excluding crops, is greater than 50%. Real property insurance will be required, with the bank as beneficiary, when equity in the real property security is less than the value of the improvements on the property. Machinery and equipment insurance will be required for selected borrowers.

Appraisal Guidelines. Appraisals will be obtained on all primary security, and will be performed by a qualified appraiser. If the appraisal is performed by a bank employee, it will be someone other than the loan officer. An appraisal review process is performed by the Lender to check for deficiencies.

Crops will be valued at the lesser of cash input costs or market.

Equipment is itemized on a property list, and the appraised value is based on auction sales. The appraiser attends numerous auctions to establish present values of equipment held as security. Published equipment guides are used for reference when applicable. Outlook and Hot Line are two guides used by Farmers Exchange Bank.

Cattle are valued from current auction values and the use of the Oklahoma Market Report. Farmers Exchange Bank also uses future markets to establish the value of agriculture products.

All real estate loans will be conducted in accordance with current banking regulations and in accordance with sound underwriting. A Certified General Appraiser performs all appraisals for real estate loans of \$250,000 or more. Appraisals for loans less than \$250,000 will be performed by a qualified appraiser, whose work and experience has been reviewed and approved by the Lender. Real estate appraisals must be completed in accordance with the Uniform Standards of Professional Appraisal Practices. Each appraisal is ordered in writing, and must be current or no more than twelve months old. Additional loans are required to have the appraisal updated.

Verifying Ownership of Assets. The ownership of assets being pledged as collateral is verified by several means. Real estate ownership is verified by a title search. Ownership of chattel property is verified by visual inspection, bill of sale, or a search of UCC filings. If doubt exists the depreciation schedule of the applicant's income tax return will be reviewed. Documentation of the above verifications is entered into the file for record.

Verifications of Prior Liens. Prior liens are verified with the use of a five-year UCC lien search in the state of residence. If a lien is noted, the secured creditor is contacted to assess the lien. Occasionally, secured creditors are called to clarify discrepancies.

Requirements for Perfecting Liens. A mortgage is filed on record to perfect real estate liens. UCC-1 forms are filed to perfect liens on chattels. Prior to the above, a preliminary title opinion or title insurance binder is requested to insure filing proper position of real estate. After filings are completed a final title opinion or title insurance is requested to verify first mortgage position on real estate. Preliminary and final UCC lien searches are implemented to verify a lien position on chattels.

When liens are taken on fixtures, they are filed with the same standards. UCC liens are always tied to the note and security agreement.

E. Conditions

Loan conditions address loan purpose, loan amount, loan structure, pricing, and scope of financing or requirements unique to a loan. These conditions need to balance credit risk with effective loan conditions and controls. As loan risk increases conditions are added. The conditions of approval are based on the analysis of the other four credit factors to identify applicant credit worthiness and risk. Examples include additional monitoring, collateral, insurance, etc. to reduce the risk exposure of any particular loan.

All FSA guaranteed loans are closed with the implementation of a loan agreement. The loan agreement always specifies certain requirements such as annual financial statements and tax returns and the right of the lender to inspect secured property annually.

Disbursement of Loan Proceeds. Each loan with multiple draws requires a line of credit agreement perfected as part of the loan. The Lender specifies terms for draws from the line and no funds are dispersed without compliance. Each file has an advance ledger on the computer to document date, amount and use of proceeds.

III. LOAN SERVICING / ADMINISTRATION SYSTEM

A. General Servicing

Borrower Monitoring and Supervision. Borrowers will be monitored for financial performance in order to determine the level of risk to the Lender. The condition of agricultural loans will be reviewed on an annual basis.

Annual borrower review documentation will include the following:

- Updated appraisals of livestock and equipment.
- A current balance sheet for borrower, entity members and any personal guarantors.
- An analysis of current assets, crop condition, livestock conditions, prices and the likelihood of payment of operating credit; and term debt obligations due in the current cycle.
- An income and expense statement such as an IRS Form 1040, Schedule C or F, an equity manager loan analysis report, a customer's computerized records or a similar form.
- A comparison of projected to actual financial results and trends.
- Cash flow projection for the upcoming year. In the case of lines of credit, the ability to meet all financial obligations will be documented before the operation is financed for another year.
- Review of capital purchase and consumer credit needs projected for the next year.
- Assessment of farm and farmstead condition.
- For borrowers with aggregate debt of over \$150,000, the loan officer will report quarterly on the account score to the board of directors.
- For borrowers on the Watch List a credit score will be assigned.

Consolidations. Two or more loans made for similar chattel-related purposes and secured by similar security may be consolidated into one loan. FSA concurrence will be requested for consolidations of FSA guaranteed loans.

Monitoring Security. Acquisition and lien priority of planned capital purchase or ownership of basic security will be verified. Methods for verification include a physical inspection visit by the loan officer or agent hired by the bank, bill of sale, vehicle title, deed, lien search or another method as appropriate. Cattle will be marked for identification.

Proceeds from the sale of security will be applied to the debt according to lien priority. Where multiple loans are secured by a blanket lien on chattel security, crop and livestock income will be applied to the annual operating debt incurred to produce that item before being used to pay term debt installments.

The source of proceeds, including bushels, weights, and size will be verified with receipts in those cases where the borrower's records are not accurate. Source of payment funds will be documented on the loan payment ledger. Income from sales in one cycle that is not received until the following cycle (e.g., overlap income, retains, dividends) will be applied to any outstanding debt associated with the production of that commodity. Term debt collateral sales proceeds will not be used to make scheduled term debt installments.

Advances on Lines of Credit. Advance requests may be made by telephone, electronic mail, or other methods. The request and its use will be acknowledged in writing on the computer in the message screen.

Advances and payments will be made by the loan department. Loan ledgers are updated daily for advances and payments. Livestock operation lines of credit are tracked using livestock inventory control records and inspection reports.

Emergency Advances. A moderate advance in excess of the loan amount may be made when an aberration causes expenses to exceed the original budgeted amount, and the advance is necessary to avoid significant damage to or loss of the loan security. The reason for the advance and the financial benefit to be derived from it will be documented in the loan file.

Construction Loans. Loans made for development will require that the Lender be provided with a copy of plans, specifications and construction contracts. The Lender must endorse the method of construction. Advances on construction loans will be made based on the level of completion after verification by a loan officer visual inspection.

Subordination. With FSA concurrence, the Lender will subordinate its lien on security in favor of another lender in the following cases:

- To allow a borrower to refinance a loan secured by a prior lien when cash flow will be improved and the amount of debt will not increase.

- Liens on crops and livestock to be produced will be subordinated when requested by the borrower and another lender when the lien was taken as an abundance of caution (extra security) and the other lender will be providing annual operating credit.

The Lender will not subordinate a lien on a guaranteed loan in favor of itself.

Partial Releases. Security is released only when replacement security of a like kind and value is obtained or the item has no value as loan collateral. Partial releases are granted when debt is reduced and the resulting loan/value is equivalent to the Lender's collateral standards for the type of security being released.

Security may be released without consideration with the written concurrence by the responsible loan officer's direct line supervisor when:

1. The borrower makes a written request for the release;
2. The reason for the request is reasonable (e.g., divorce, minor gift); and
3. Supporting documentation is obtained including a balance sheet, an appraisal (if required for loan approval), calculation of the adequacy of the collateral remaining after the release, property settlement (if applicable) and projected cash flow demonstrating continued repayment ability. The remaining collateral must exceed that which existed at loan inception.

Cull and replacement policy. Breeding livestock sales proceeds will be treated as normal income when herd size and value is maintained at a level at or above that which existed at loan inception as verified by periodic inspection.

Releases of Borrowers. Obligated parties, including entity members, personal guarantors, cosigners, or joint operators are not released from liability except when the debt has been paid or refinanced. Exceptions are as follows:

- A divorced spouse may be released when they will receive no business assets in the property settlement, the loan is more secure than at loan inception, and the remaining liable party has the documented ability to pay the debt.
- On a case-by-case basis with executive loan committee concurrence and FSA written approval.

Additional Loans. The Lender will make consumer, residential and commercial loans to guaranteed loans customers as part ongoing relationships. If non-guaranteed loans are made, security will not be intermingled, and payments will be applied to any guaranteed loan first.

B. Delinquencies

Distressed Loans. If the annual analysis or any information provided by the borrower indicates that the borrower will have difficulty meeting their obligations, servicing options to improve the customer's situation will be explored before actual default occurs.

Reminder Notices. For annual payment borrowers, reminder notices are mailed 10 days prior to the installment due date. Reminder notices are not mailed for monthly or quarterly payment borrowers.

Past Due Notices. On the first five days of delinquency after the due date, past due notices are mailed to the customer, and the loan administration staff notifies the responsible loan officers. When a note becomes 10 to 30 days past due it is considered a problem, and additional collection attention is required. At 60 days past due the Lender will document all collection attempts and actions. If a loan is 60 to 90 days past due, legal action to collect the note will not be delayed unless arrangements and/or progress is being made on the note. Legal action should be filed on all notes not later than the point in which a statutory bad debt results unless regular payments have resumed, or unless the Discount Committee has approved such note (not filing suit). Legal action on loans of small amounts may not be economically feasible.

For all guaranteed loans that become 45 days past due, the appropriate paperwork is sent to FSA outlining the results of attempts and/or successes to schedule a meeting, and planned collection activities.

Officer Contacts and Correspondence. In addition to automated notices, the loan officer who is handling a delinquent debt is responsible for collecting the debt and protecting the Lender from loss without violation of the law. In the event the delinquency is due to circumstances beyond the debtor's control, and such circumstances are temporary, the loan officer may consider a written "Extension" or "Change In Terms" to accommodate the debtor's ability to repay the debt. Repeated Extensions or Change In Terms are discouraged and may be indicators of significant problems of repayment by the customer.

Below is a list of collection procedures commonly used in the collection of a delinquent obligation:

- **Phone Call.** It is advisable for the loan officer to contact a debtor by phone immediately when the officer is advised of a delinquency. A plan of repayment should be discussed with the debtor and immediately documented in the file. Follow up calls on failure to comply with the repayment plan should be made promptly upon any deviation from the repayment plan.
- **Personal Contact.** In the event an officer is unable to contact a debtor by phone, or at the officer's discretion, it may be necessary to contact the debtor in person. Again, a plan of repayment should be established and monitored for compliance. Deviation from a repayment plan should be addressed immediately.

- **Written Correspondence.** It is also advisable to correspond with the delinquent debtor by mail. Written confirmation of repayment plans or work-out agreements should be mailed to the debtor within 10 days of a verbal agreement between both parties.

In the event a debtor is uncooperative and appears to be unwilling to repay the indebtedness, the officer should correspond by Certified Mail and issue a 10-Day Letter. The letter should contain the facts concerning the delinquency and the Lender's intentions to repossess or take legal action as necessary to collect the debt.

Restructuring Delinquent Loans. If a defaulted borrower is unable to pay the account as agreed, they may request and present a plan for restructuring based on probable financial performance. Debt restructuring will be approved in lieu of liquidation when financially prudent and feasible. Options that the Lender will consider include:

- A 90-day extension agreement. Up to a three-month deferral may be approved by the loan officer with no payments when delinquency is caused by market conditions or timing of the production cycle.
- Deferral. A six-month deferral may be approved by the loan officer after interest due is paid current. A six-month deferral requires amendment of the note and a written deferral agreement. A subsequent six-month deferral or longer deferral within the same operating cycle requires loan committee approval. Cash flow will indicate that repayment problems are only short term and regular repayment can be satisfied.
- A one-year workout. With FSA concurrence, where no loss is expected (based on interest accrual and asset depreciation projected through the end of the workout period), due to documented excess security, borrowers may be allowed up to one year from the date of missed payment to secure refinancing or voluntarily liquidate. The agreement will be in writing, interest will accrue, operating credit will not be provided, and a foreclosure complaint will be drafted as a contingency.
- Uneven payments. Customers with documented short term cash flow deficiencies may have loans restructured with uneven payments of at least an amount that will exceed interest accrual. A precise date for resumption of amortized principal installments will be established at the time of the action.
- Rescheduling. Operating lines of credit may be rescheduled for up to seven years. Advances will cease on rescheduled lines of credit. Intermediate term notes will typically be rescheduled based on the remaining life of the security not to exceed 15 years from the action. Real estate secured notes may be rescheduled for a period not to exceed 40 years from the original note date. Balloon payments as part of any rescheduling action are prohibited.
- Capitalization of accrued interest. Up to 12 months of delinquent interest may be capitalized as part of an action. Capitalization of more than 12 months of past due accrual requires executive loan committee or board approval based on the resulting size of the debt. Capitalization of interest on any loan will not exceed FSA statutory loan limits. The loan officer will provide FSA a copy of the new note, and other documents and request that FSA provide the Lender a modification of the guarantee to reflect the new guaranteed principal amount. On commercial or agricultural notes,

past due rate of interest is 4% above original loan interest rate and is not covered by the FSA guarantee.

- Default charges. If a payment is more than 10 days past due, there will be a late charge of 5% of the due amount, with a \$5.00 minimum and a \$16.50 maximum. These charges are not covered by the FSA guarantee.

Debt Writedown. Debt writedowns outside of bankruptcy will be considered when cash flow is adequate to make a meaningful payment but the loan's security situation has deteriorated significantly. Writedowns of guaranteed loans will be approved by FSA.

C. Other Servicing Actions

Acceleration. Acceleration will be automatic at the Lender's option upon borrower violation of any loan terms and written notification to the borrower.

- Non-monetary default. Upon occurrence of unauthorized use of loan funds, insurance lapse, security depletion, death, abandonment, conversion, etc., notice of default is mailed and the borrower is provided 30 days to take corrective action.
- A plan of liquidation is required but does not have to be submitted to FSA. The Lender may proceed to make protective bids and or accept deeds in lieu of foreclosure without FSA concurrence. However, in the event that the value of the property has been substantially reduced by the presence of hazardous waste, FSA concurrence will be obtained before an action is taken.
- Voluntary Liquidation. The borrower will be provided 30 days from acceleration to liquidate or agree in writing to a plan for voluntary liquidation of all loan collateral. Voluntary plans will include contingencies for failure to meet plan milestones. A release of the borrower from continued liability may be agreed to as part of a voluntary plan if written agreement is obtained from the FSA State office.
- 120 days past due. The loan is referred to the Lender's legal counsel for collection action. The loan officer will attempt to take possession of chattel security if relinquished by the borrower.
- Estimated loss claim submissions will include the date of the decision to liquidate.
- Final loss claims will be prepared and submitted in accordance with section 762.149(i) of 7 CFR part 762.

Bankruptcy. In the event of bankruptcy, all necessary actions will be undertaken to protect and preserve the collateral.

Judgments. Judgments will be sought in all forced liquidations.

Protective Advances. Protective advances not to exceed \$10,000 without FSA concurrence will be made to protect the security.

Federal Offset. Loans made with the FSA application form FSA-1980-28 with the revision date of July 20, 2001, are subject to Federal offset. The Lender will notify the borrower when subject to offset.